

Service Date: June 29, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of the Application)	
Of MONTANA POWER COMPANY to)	Docket No. 87.4.21
Restructure Electrical Rates.)	
IN THE MATTER Of the Application)	
Of MONTANA POWER COMPANY For)	Docket No. 86.6.29
Authority To Implement an Electric)	
Economic Incentive Rate.)	
IN THE MATTER Of the Application)	
Of MONTANA POWER COMPANY For)	
Authority To Establish An Electric)	Docket No. 85.9.40
Industrial Retention/Interruptible)	
Rate For Stauffer Chemical Co.)	
IN THE MATTER Of the Application)	
Of MONTANA POWER COMPANY To Change)	Docket No. 85.11.49
The Availability Criteria In The)	
Electric Contract Tariff.)	
IN THE MATTER Of the Complaint Of)	
MONTANA REFINING COMPANY,)	
Complainant,)	Docket No. 86.12.50
vs.)	
MONTANA POWER COMPANY,)	
Defendant.)	ORDER NO. 5340a

ORDER ON RECONSIDERATION

FINDINGS OF FACT

PART A

BACKGROUND

1. The Montana Power Company (hereafter MPC, Company, or Applicant) is a public utility furnishing electric service in the State of Montana, and is subject to the regulatory jurisdiction of the Public Service Commission (PSC or Commission). The Company serves approximately 242,000 electric customers in Montana. On April 9, 1987, MPC filed with the Commission its application for authority to restructure electric rates.

2. Pursuant to a Notice of Public Hearing, a hearing was held in Helena, Montana, commencing on Monday, November 2, 1987, and ending on Thursday, November 5, 1987.

3. On April 22, 1988, the Commission issued Order No. 5340 presenting its decision on the cost of service issues in this proceeding.

4. On May 5, 1988, the Commission issued a Notice of Staff action extending the deadline for Motions For Reconsideration to May 20, 1988.

5. On May 20, 1988 the Montana Consumer Counsel (MCC) submitted a Motion for Reconsideration of Order No. 5340.

PART B

MOTION FOR RECONSIDERATION

6. Introduction. The MCC has filed a motion requesting that the Commission reconsider its findings on both marginal transmission costs (Findings No. 74 & 75) and the seasonal cost allocation to customer classes in the summer (Findings No. 81-84).

The Commission will address marginal transmission costs first, followed by the summer seasonal allocation.

7. Transmission. The MCC's Motion first addresses the Commission's rather reluctant acceptance of the MPC's marginal transmission costs. The MCC contends that the Commission has accepted its marginal transmission methodology in previous dockets, and that the Commission should accept its methodology in this docket. The most recent Docket in which the MCC's marginal cost methodology was accepted was Docket No. 86.5.28, concerning Montana-Dakota Utilities (MDU). In that docket, MDU proposed marginal transmission costs based on; "a regression of transmission investment (net of those components related to facilities replacement and remote baseload) on incremental peak demand, both in cumulative terms, using historic and forecast data" (Order 5219b, Finding No. 248). In the same order the Commission also reviewed the MCC's marginal transmission proposal:

257. Transmission. MCC delineates three sub-functions provided by transmission capacity including: 1) energy-related; 2) - J peaking-capacity related, and 3) system-reliability related. However, MCC only reflects peaking capacity costs in its incremental BPSC. Whereas MCC holds that the marginal cost of transmission is the "associated" cost to connect added bulk power loads at the time of system peaks. (Order No. 5036a, March 24, 1987).

8. The Commission ultimately adopted the MCC's proposed marginal transmission costs over those offered by MDU. The Commission also elaborated upon the basis for accepting the MCC's proposal:

273. Transmission. In past orders, the Commission has adopted the MCC's logic for basing marginal transmission costs on the cost of connecting a peaking resource to the transmission system (e.g., Order 5036a, p. 76). In the instant docket, the Commission finds the same method should be used. A few comments on the issue are in order, however.

274. The development of marginal cost transmission costs, whether they be for energy or capacity purposes, was not in the Commission's estimation debated with much rigor. MDU's method begs an explanation as to why there are no energy-related costs in its analysis. MCC on the other hand argues that there are three different types of functionalized costs, each with a specific purpose (ibid, pp. 35-6). MCC then only includes transmission costs "associated" with marginal generation-related peaking capacity costs (ibid, p. 38). Practically, there would not really appear need to incur any additional transmission capital costs to buy MAPP Sch. H peaking capacity as noted by MDU (re: Mr. John Castleberry's Rebuttal at p. 3). (Order No. 5036a, March 24, 1987).

9. Clearly, the Commission accepted the MCC's marginal transmission costs somewhat reluctantly in Docket No. 86.5.28. The Commission would have preferred a marginal transmission cost methodology which accounted for the energy-related and reliability-related sub-functions of transmission.

10. In the instant Docket, the Commission adopts the MPC's marginal transmission costs. Unlike MDU's marginal transmission costs in Docket No. 86.5.28, or the MCC's marginal transmission costs in the present Docket, the MPC's costs do contain elements of system reliability. The Commission does question the Company's

allocation of transmission costs between New Load and Reliability. However, and to the extent that the MPC proposal reflects reliability-related marginal transmission costs, the Commission finds that the Company's marginal transmission costs are more reflective of the Company's system than those offered by the MCC.

11. Seasonal Peaks. The second issue for reconsideration raised by the MCC is the Commission's acceptance of the Company's proposal to allocate summer capacity-related costs based on an average of summer peak demands (Order No. 5340, Finding No. 38). The MCC proposed using the single largest summer peak to allocate these costs (Order No. 5340, Finding No. 48).

12. The Commission finds that the MCC's Motion in this regard has merit. As the MCC points out in its Motion, the Commission reluctantly adopted the Company's average summer peak methodology. Indeed, the Company justified the use of an average summer peak stating that the summer peak for its various customer classes do not occur in the same month. Similarly, the use of a single winter peak was appropriate because winter peaks are generally weather sensitive (Order No. 5340b, Finding No. 82).

13. However, on cross-examination, the Company indicated that the various customer classes do not peak in the same winter month, and that the summer peaks are also weather sensitive (Order No. 5340, Finding No. 82).

14. The Commission primarily based its initial determination upon its observation that MPC was not in any danger of becoming a summer peaking utility (Order No. 5340, Finding No. 84). In its Motion for Reconsideration, MCC asserts that whether or not MPC is a summer peaking utility should not be the deciding factor. Rather, the MCC states that since 37% of the demand costs are allocated to

the summer season, the Commission should focus upon treating these costs in the same manner as the winter demand costs. That is, the summer demand costs should be allocated among classes based upon the largest coincident peak occurring during the months defined as the summer season.

15. Upon reconsideration, the Commission agrees. Neither the winter or summer peaks for the various customer classes occur during the same month, and both peaks, to some degree, are weather sensitive. A substantial portion of the total demand costs are allocated to the summer season. Accordingly, the Commission believes that it is appropriate to treat the allocation of the summer season demand costs in the same manner as the winter season demand costs.

16. Table 1 shows MPC's system peak by season for the years 1981 through 1985. The average summer peak is also shown over the same time period. Additionally, the table shows the average summer peak in relation to the winter peak, and the summer peak in relation to the winter peak.

TABLE 1

MPC PEAKS PER MONTANA FERC FORM NO. 1 FOR THE YEARS 1981

	1981	1982	1983	1984	1985
WINTER PEAK	1,085	1,097	1,279	1,221	1,299
SUMMER PEAK	919	930	953	1,073	1,112

	1981	1982	1983	1984	1985
SUMMER AVERAGE	870	886	901	994	1,000
SUMMER PEAK AS A % OF WINTER PEAK	84.70%	84.78%	74.51%	87.88%	85.60%
SUMMER AVERAGE AS A % OF WINTER PEAK	80.17%	80.78%	70.48	81.43%	77.02%

The Commission finds no clear relationship which would argue for the use of either an average summer peak or a single summer peak. The Commission continues to believe that MPC is not in danger of becoming a summer peaking utility. However, the Commission finds that this factor alone, without further debate upon its relative importance, is insufficient to justify the use of different capacity allocation methodologies between the winter and summer seasons.

17. Again, the Commission finds that the issue of a single summer coincident peak versus an average of the summer coincident peaks must be assessed in the next general rate filing.

18. Accordingly, the Commission requires that MPC modify the compliance COS study to use the single largest summer peaking month (July) to allocate generation and transmission related capacity costs to customer classes. As modified, the compliance COS study shall be used by the Company in designing rates pursuant to the forthcoming Order from the Commission in this Docket addressing rate design.

CONCLUSIONS OF LAW

1. The Applicant, Montana Power Company, furnishes electric service to consumers in the State of Montana and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.

2. The Commission properly exercises jurisdiction over the Applicant's rates and operations. Section 69-3-102, MCA and Title 69, Chapter 3, Part 3, MCA.

3. The Commission has provided adequate public notice of all proceedings and the opportunity to be heard to all interested parties in this Docket, Title 2, Chapter 4, MCA.

ORDER

1. The Montana Consumer Counsel's Motion To Reconsider Order No. 5340 and revise Findings of Fact No.'s 74 and 75 is DENIED.

2. The Montana Consumer Counsel's Motion to Reconsider Order No. 5340 and amend Findings of Fact No's. 81-84 is GRANTED.

3. In accordance with the determinations set forth in this Order, Findings of Fact No.'s 81-84 of Order No. 5340 are 3 revised to allocate both winter and summer seasonal demand costs among customer classes on the basis of a single coincident peak. See Findings of Fact No.'s 11-18 herein.

4. The Company is required to modify its compliance COS study in accordance with the determinations set forth in this Order.

Footnote: The Commission notes that NEAR Topic 1.1 presents 29 methods for allocating costs to customer classes. One of those methods is the MCC's proposed methodology; the Company's methodology is not listed (NEAR, An Overview of Regulated Ratemaking In The United States: Topic 1.1, February 2, 1977).

5. All motions and objections not ruled upon are DENIED.
DONE AND DATED this 14th day of April, 1988, by a 4-1 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner
Dissenting (No Dissent written)

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol A. Frasier
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.